

Adams, Barney

IN RE: ADAMS GOLF, INC. : CONSOLIDATED
SECURITIES LITIGATION : C.A. NO. 99-371 KAJ

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<p>09:45:36 1 time, seeing it happen to other people. It was</p> <p>09:45:39 2 just -- just one of those -- it's like "they."</p> <p>09:45:42 3 It's one of those known things.</p> <p>09:45:44 4 Q Do you -- do you have a belief as to</p> <p>09:45:46 5 why it happens, where there's a hot product in the</p> <p>09:45:49 6 golf industry?</p> <p>09:45:51 7 A Why? Can you define that for me, so</p> <p>09:45:56 8 I don't jump to a conclusion.</p> <p>09:45:57 9 Q My pleasure.</p> <p>09:46:00 10 I believe you said, Mr. Adams,</p> <p>09:46:02 11 that your understanding in the golf industry is</p> <p>09:46:04 12 that where there is a hot product, gray marketing</p> <p>09:46:09 13 occurs. My question is: Why?</p> <p>09:46:13 14 A I would -- this is just my</p> <p>09:46:16 15 assumption, because I'm now in the minds of the --</p> <p>09:46:21 16 that channel of distribution, but if it's a hot</p> <p>09:46:23 17 product and they have it in their store, you know,</p> <p>09:46:28 18 that's -- that's good retailing, I guess, from</p> <p>09:46:30 19 their perspective. I could say that's -- I'm</p> <p>09:46:34 20 thinking for them now.</p> <p>09:46:43 21 Q In your last answer when you referred</p> <p>09:46:46 22 to "them," were you referring to a nonauthorized</p> <p>09:46:53 23 dealer who receives product through gray market</p> <p>09:46:59 24 channels?</p>	<p>09:48:14 1 correct?</p> <p>09:48:20 2 A The only incident that I was aware</p> <p>09:48:24 3 of, or purported incident, was a very small</p> <p>09:48:28 4 quantity in Canada.</p> <p>09:48:53 5 Q Okay. When you say "a very small</p> <p>09:48:55 6 quantity," how many clubs?</p> <p>09:48:56 7 A I have no idea.</p> <p>09:48:59 8 Q More than 100?</p> <p>09:49:01 9 A Again, it was -- it was my</p> <p>09:49:06 10 recollection it was just a very minor thing, so I</p> <p>09:49:08 11 don't know what the definition of "minor" is.</p> <p>09:49:13 12 Q Okay. Pre-IPO, before -- before the</p> <p>09:49:18 13 IPO, is it correct that you were not aware of any</p> <p>09:49:23 14 other transshipping or gray marketing going on</p> <p>09:49:26 15 apart from this very small quantity in Canada?</p> <p>09:49:32 16 MR. BESSETTE: Can I get that</p> <p>09:49:32 17 question back, please.</p> <p>09:49:32 18 (The reporter read back the</p> <p>09:49:46 19 requested text.)</p> <p>09:49:46 20 MR. BESSETTE: Thank you.</p> <p>09:49:47 21 A Okay. Answer?</p> <p>09:49:49 22 Q (By Mr. Collins) Please.</p> <p>09:49:53 23 A That sounds very specific to me. If</p> <p>09:49:59 24 I was aware of any product in the gray market</p>
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<p>09:46:59 1 A Nonauthorized -- yeah. I mean, I</p> <p>09:47:04 2 think I'm responding or I'm -- I believe I'm</p> <p>09:47:06 3 responding to what you asked me, which was: Why</p> <p>09:47:09 4 would somebody who was a nonauthorized dealer want</p> <p>09:47:13 5 to have Adams product?</p> <p>09:47:18 6 Q Okay. Why would somebody who's an</p> <p>09:47:22 7 authorized dealer or distributor want to</p> <p>09:47:26 8 transship?</p> <p>09:47:26 9 MR. BESSETTE: I'm just going</p> <p>09:47:27 10 to object again. It's asking him to be in the</p> <p>09:47:29 11 mind of one of those folks, so it's speculation.</p> <p>09:47:32 12 MR. COLLINS: Sure.</p> <p>09:47:34 13 Q (By Mr. Collins) And you know, I</p> <p>09:47:35 14 think Paul is right, so let me rephrase the</p> <p>09:47:37 15 question.</p> <p>09:47:37 16 Based on your experience in</p> <p>09:47:39 17 the industry, what were the circumstances, if you</p> <p>09:47:42 18 know, under which authorized distributors or</p> <p>09:47:47 19 retailers of hot products transshipped? Under</p> <p>09:47:54 20 what circumstances did that transshipping occur?</p> <p>09:47:56 21 A I have no idea. I mean, I'd only be</p> <p>09:48:00 22 guessing.</p> <p>09:48:03 23 Q Okay. Now, transshipment or gray</p> <p>09:48:08 24 marketing did occur at -- at Adams Golf pre-IPO,</p>	<p>09:50:02 1 pre-IPO, it was extremely minor, and so to say</p> <p>09:50:09 2 that I wasn't aware of anything at all -- I mean,</p> <p>09:50:12 3 we had a million things going on at that time. I</p> <p>09:50:15 4 might have heard about, you know, a few pieces at</p> <p>09:50:18 5 some location. I honestly don't remember, but it</p> <p>09:50:21 6 certainly wasn't anything of any significance, any</p> <p>09:50:28 7 substance.</p> <p>09:50:28 8 Q Uh-huh. Okay. Let's -- let's talk</p> <p>09:50:44 9 for a moment why it wasn't anything of any</p> <p>09:50:46 10 significance or any substance. I want to</p> <p>09:50:50 11 understand, Mr. Adams, the reasons why you believe</p> <p>09:50:54 12 pre-IPO gray marketing wasn't of any significance</p> <p>09:50:57 13 or any substance.</p> <p>09:50:59 14 First, do I -- is it correct</p> <p>09:51:01 15 that it wasn't of any significance or any</p> <p>09:51:04 16 substance because the number of clubs involved was</p> <p>09:51:13 17 small?</p> <p>09:51:14 18 A I think the answer is it was, you</p> <p>09:51:15 19 know -- it was basically a nonissue. Well, that's</p> <p>09:51:20 20 not fair. It certainly was a very small number of</p> <p>09:51:25 21 clubs, if it was even going on.</p> <p>09:51:38 22 Q Okay. What do you mean by "a very</p> <p>09:51:40 23 small number of clubs"?</p> <p>09:51:43 24 A You mean in volume?</p>

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13:43:32	1 A Would you repeat that, please.	13:46:39	1 them?
13:43:35	2 Q Did you ever investigate or ask	13:46:40	2 A Well, it's addressed to them. I'm
13:43:38	3 somebody else to investigate whether some or all	13:46:48	3 being flip. It was addressed to them.
13:43:41	4 of the 33.8 million in sales for the quarter were	13:46:50	4 Q In the first paragraph, what did you
13:43:46	5 sales that were purchased to transship to or for	13:46:51	5 mean? Have we been presenting a false image?
13:43:52	6 the account of gray marketers?	13:46:58	6 A My image of the sales department was
13:44:00	7 A I don't remember -- pardon me again.	13:47:01	7 as a very efficient, high morale, on top of
13:44:03	8 I don't remember any	13:47:05	8 situations, you know, an area to be admired. And
13:44:08	9 investigation. It was a nonissue, as I've said	13:47:14	9 what I saw in my personal visit made me question
13:44:10	10 before. Does that mean that something could have	13:47:17	10 there.
13:44:15	11 happened with an employee that I don't know	13:47:17	11 Q Were you referring to the image you
13:44:17	12 anything about? You know, who knows.	13:47:20	12 held in your mind of inside sales, or instead, the
13:44:19	13 But to me -- it's hard for me	13:47:25	13 image that the investing public had with regard to
13:44:23	14 to answer this question because you're asking me	13:47:28	14 Adams Golf's prospects?
13:44:25	15 about something that just wasn't going on --	13:47:29	15 A No. This -- excuse me.
13:44:27	16 Q Okay.	13:47:32	16 MR. BESSETTE: Go ahead.
13:44:27	17 A -- or didn't happen.	13:47:33	17 A It's a personal reaction.
13:44:46	18 Q Exhibit 57, please. Have you seen	13:47:42	18 Q (By Mr. Collins) In what way were
13:44:54	19 this document before?	13:47:42	19 you concerned that we had been presenting a false
13:45:01	20 A Yes, I have.	13:47:45	20 image with regard to inside sales? What was
13:45:01	21 Q You were the author of this document?	13:47:47	21 false?
13:45:04	22 A Well, probably. It's not signed, and	13:47:48	22 MR. BESSETTE: Asked and
13:45:08	23 I think this is a classic case of my volatility,	13:47:48	23 answered.
13:45:14	24 and this would have been one that I hoped I looked	13:47:48	24 But go ahead.
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13:45:18	1 at in the next morning and never sent out, but I	13:47:52	1 A Well, I have to rely on their ability
13:45:22	2 could easily have done it.	13:47:55	2 to give me good numbers, good forecasts, good
13:45:24	3 Q But whether you sent it or not, you	13:47:58	3 market analyses and so on. And when I visit them
13:45:27	4 authored this document, correct?	13:48:04	4 and I see disarray, bickering, finger-pointing,
13:45:28	5 A That's fair.	13:48:12	5 you know, childish stuff going on, then, you know,
13:45:29	6 Q And you authored it on or about	13:48:16	6 where does it stop? It wasn't the image I had of
13:45:31	7 August 14th in your role as CEO?	13:48:22	7 the sales department.
13:45:34	8 A That's fair.	13:48:25	8 Q (By Mr. Collins) This visit that you
13:45:36	9 Q Now, what -- what was going on here?	13:48:26	9 made, was it on or about August 14th?
13:45:37	10 Why -- whether you sent it or not, why did you	13:48:32	10 A I would guess prior to, but I
13:45:39	11 write this document?	13:48:32	11 wouldn't -- I wouldn't know when.
13:45:48	12 A I had a -- I had expectations for the	13:48:32	12 Q How long was the visit?
13:45:54	13 sales group: Morale, efficiency, and in a	13:48:35	13 A Again, I don't remember specifically.
13:46:04	14 personal visit, I did not encounter that. I	13:48:38	14 Q Where was sales located in relation
13:46:09	15 encountered an environment that I didn't care for.	13:48:40	15 to your office at the time?
13:46:14	16 And as I said, in my normal,	13:48:43	16 A Down the hall and to the right.
13:46:20	17 occasionally volatile way of handling things, I	13:48:47	17 Q Did you speak to persons in sales on
13:46:23	18 came up with this guilty-until-proven-innocent	13:48:49	18 the occasion of this visit?
13:46:28	19 approach.	13:48:52	19 A Yes, I'm sure I spoke to one or more
13:46:28	20 Q And you thought the guilty parties	13:48:57	20 members of the sales group.
13:46:32	21 were Mark Gonsalves and Ric Jarrett?	13:49:00	21 Q In the third paragraph, there's a
13:46:35	22 A Well, I started with them. Let's put	13:49:01	22 reference to George Clouse referred to as: My
13:46:37	23 it that way.	13:49:05	23 friend at Platinum.
13:46:38	24 Q What do you mean you started with	13:49:06	24 A Yes.

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13:49:06	1 Q Could you identify him further,	13:52:02	1 how it was presented in the road show.
13:49:08	2 please.	13:52:04	2 How was it presented in the
13:49:08	3 A George is CEO of -- it was Platinum	13:52:05	3 road show?
13:49:13	4 Software then. It's -- oh, I forget their name.	13:52:06	4 A As the -- as a very precised --
13:49:18	5 Now they've changed their name. But they were	13:52:14	5 excuse me, precised -- as a very precise, tight,
13:49:20	6 making a presentation to us about changing -- or	13:52:21	6 well-managed organization. They were one of our
13:49:24	7 about upgrading our internal software package.	13:52:25	7 stars. Bright star, I think I used.
13:49:37	8 Q And is -- Telesales' parameters	13:52:29	8 Q The next sentence reads: I realize
13:49:42	9 refers to the direct -- direct marketing as	13:52:31	9 there are decisions we can make (like diverters),
13:49:45	10 opposed to the inside sales function?	13:52:35	10 but we must rely on these people.
13:49:47	11 A No. Telesales is inside sales.	13:52:38	11 What did you mean
13:49:56	12 Q Now, the conclusion at Paragraph A:	13:52:40	12 by "diverters"?
13:50:00	13 The department staff has very low morale, is that	13:52:42	13 A I don't know specifically.
13:50:03	14 something you encountered yourself, or is that	13:52:44	14 Q Were you saying in this sentence --
13:50:06	15 what someone told you?	13:52:48	15 weren't you saying that you realized that Adams
13:50:11	16 A I would -- I would define this one as	13:52:50	16 Golf could increase sales by selling to outlets
13:50:14	17 my interpretation of what I saw.	13:52:57	17 that weren't authorized dealers by selling to
13:50:18	18 Q Did people complain to you?	13:53:03	18 discount warehouses, for example?
13:50:22	19 A I don't remember specifically.	13:53:06	19 A I think -- no, but I do think what I
13:50:37	20 Q And C: They know cheating (at least	13:53:09	20 was saying is that you want to be absolutely sure
13:50:42	21 in the form of double shipments) occurs, and a	13:53:20	21 there's not an environment where something like
13:50:46	22 concern that such action is quietly endorsed.	13:53:23	22 that could happen. That's what I was -- I mean,
13:50:48	23 How -- on what basis did you	13:53:27	23 it's not a specific thing. It's just a general
13:50:51	24 conclude that the inside sales staff knows that	13:53:30	24 lack of professionalism that I -- that I felt that
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13:50:54	1 cheating, at least in the form of double	13:53:33	1 I saw. And as I said, this was an over-the-top,
13:50:57	2 shipments, occurs?	13:53:38	2 guilty-until-proven-innocence response.
13:50:59	3 A Accusations. Somebody said: I think	13:53:38	3 Q I see.
13:51:05	4 somebody double-ships, something along those	13:53:41	4 So you were concerned at the
13:51:08	5 lines.	13:53:43	5 time you wrote this that sales had been made or
13:51:08	6 Q Who said that?	13:53:46	6 might be made to diverters or customers that
13:51:10	7 A Oh, I don't remember. I don't	13:53:53	7 weren't authorized retailers or distributors; is
13:51:10	8 remember who I spoke to.	13:53:56	8 that right?
13:51:12	9 Q And was -- do you remember who the	13:53:56	9 A No, not at all. I think you're
13:51:14	10 alleged double-shipper or shippers were?	13:53:58	10 putting words in my mouth.
13:51:16	11 A No, I do not.	13:53:59	11 What I said was: If you
13:51:17	12 Q Was the alleged double-shipper or one	13:54:01	12 have -- excuse me -- if you have an organization
13:51:20	13 of them Jay Greaney?	13:54:04	13 that's not tightly managed, lots of things can
13:51:22	14 A I don't remember specifically.	13:54:06	14 happen, and this is a -- this is an example. I
13:51:30	15 Q Now, on the next page in the second	13:54:09	15 mean, I use it because it's a very egregious
13:51:36	16 full paragraph under Our Short-Term Goals.	13:54:14	16 example, something we would never do. But I'm
13:51:40	17 A Our Short-Term Goals.	13:54:17	17 trying to make a point here: You guys get your
13:51:42	18 Q Our Short-Term Goals are to make the	13:54:19	18 act together.
13:51:44	19 Q3, Q4 numbers?	13:54:20	19 Q What are double shipments, when you
13:51:46	20 A Oh, yes. Sorry.	13:54:23	20 refer to -- as you refer to in this memo?
13:51:47	21 Q It goes on at the end of the	13:54:28	21 A They could be anything. That's a
13:51:49	22 paragraph to say -- or the paragraph continues to	13:54:30	22 long answer.
13:51:55	23 say: What is the plan to resurrect this	13:54:30	23 Q Tell me, please. I'm referring
13:52:01	24 department, return it to what I thought it was and	13:54:32	24 specifically --

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<p>13:54:32 1 A Right.</p> <p>13:54:33 2 Q -- to how you referred to double</p> <p>13:54:35 3 shipments in C on Page 1. What did you mean by</p> <p>13:54:41 4 that?</p> <p>13:54:41 5 A I'm going to read C here.</p> <p>13:54:47 6 It could be, for example, a</p> <p>13:54:50 7 customer who feels that he ordered 50 pieces and</p> <p>13:54:56 8 got 100 and that we intentionally shipped 100 to</p> <p>13:54:59 9 boost our sales for that period of time. I mean,</p> <p>13:55:02 10 that could be a case.</p> <p>13:55:02 11 Q And -- and you heard accusations</p> <p>13:55:04 12 along those lines when you visited inside sales,</p> <p>13:55:08 13 correct?</p> <p>13:55:08 14 A What I knew was that I -- I've been</p> <p>13:55:13 15 through this double-shipping business, and I know</p> <p>13:55:20 16 that it's -- it's a much broader and more complex</p> <p>13:55:24 17 area than simply somebody deciding to ship an</p> <p>13:55:29 18 extra 20 or 50 pieces.</p> <p>13:55:32 19 A retailer calls up and says:</p> <p>13:55:35 20 I'm going to send this stuff back. You</p> <p>13:55:38 21 double-shipped me. And we never double-shipped</p> <p>13:55:40 22 him at all, but maybe he was a little short on</p> <p>13:55:40 23 money, couldn't pay his bill or whatever, you</p> <p>13:55:43 24 know, a million reasons.</p>	<p>13:56:42 1 talking about things in a well-run, well-managed</p> <p>13:56:46 2 department that's on top of things. You know,</p> <p>13:56:50 3 you -- you just don't hear about this kind of</p> <p>13:56:52 4 stuff. I'm not saying -- of course it happens. I</p> <p>13:56:55 5 mean, good heaven's, you have human beings.</p> <p>13:56:57 6 You know, you have double</p> <p>13:57:00 7 shipments, triple shipments, no shipments. You</p> <p>13:57:03 8 know, the kind of volume that we were dealing in,</p> <p>13:57:07 9 human beings make mistakes. I was interested in</p> <p>13:57:07 10 the way the -- the way the sales department was</p> <p>13:57:11 11 being managed.</p> <p>13:57:11 12 Q So when you visited the sale -- the</p> <p>13:57:14 13 inside sales department, people made accusations</p> <p>13:57:16 14 about consignments, the recording of sales; is</p> <p>13:57:19 15 that right?</p> <p>13:57:20 16 A I think I used the word</p> <p>13:57:24 17 "consignments." I don't know if they used the</p> <p>13:57:24 18 word "consignments." As I said before, I took</p> <p>13:57:26 19 everything to -- I wanted -- I wanted Mark and Ric</p> <p>13:57:29 20 go come back to me and -- and absolutely embarrass</p> <p>13:57:35 21 me by putting this thing to bed and showing me how</p> <p>13:57:39 22 squared away they were.</p> <p>13:57:40 23 Q But as I was asking a moment ago,</p> <p>13:57:43 24 whether people in inside sales used the word</p>
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<p>13:55:45 1 But if you've got low morale</p> <p>13:55:47 2 and a poorly run department, all of a sudden the</p> <p>13:55:50 3 fact doesn't come out, it just comes out as</p> <p>13:55:52 4 double-shipping, and that just adds to bad morale.</p> <p>13:55:55 5 And that's the kind of stuff I was trying to</p> <p>13:55:58 6 uproot, so to speak.</p> <p>13:55:59 7 Q On the second page, the memo goes on</p> <p>13:56:01 8 to read: Apparently we've made a lot of sales</p> <p>13:56:05 9 that have been falsely reported as sales and are</p> <p>13:56:08 10 little more than consignments.</p> <p>13:56:08 11 A Uh-huh.</p> <p>13:56:09 12 Q What's the basis for that?</p> <p>13:56:11 13 A It's the same thing. And again, I</p> <p>13:56:13 14 want to emphasize that this is -- I'm not real</p> <p>13:56:15 15 proud of this memo, frankly. It's a little over</p> <p>13:56:18 16 the top, even for me, but -- it's a</p> <p>13:56:23 17 guilty-until-proven-innocent approach. You get on</p> <p>13:56:24 18 the phone with the customer and say: Hey, look,</p> <p>13:56:28 19 you know, we -- we are -- are -- our terms are</p> <p>13:56:29 20 normally 30 days, we'll give you 60. Now, for me</p> <p>13:56:33 21 to call that a consignment, of course, is a big</p> <p>13:56:36 22 stretch.</p> <p>13:56:37 23 But that's not the point. The</p> <p>13:56:39 24 point is -- because, you know, you're not -- I'm</p>	<p>13:57:46 1 "consignment" or not, one or more persons during</p> <p>13:57:50 2 your visit told you that there had been amounts</p> <p>13:57:55 3 falsely reported as sales that were, in fact, not</p> <p>13:57:59 4 properly recordable as sales; is that right?</p> <p>13:58:01 5 MR. BESSETTE: That misstates</p> <p>13:58:02 6 what he said.</p> <p>13:58:03 7 Q (By Mr. Collins) You may answer.</p> <p>13:58:05 8 A Again, the word "consignment" is my</p> <p>13:58:07 9 word, my interpretation. I don't know if anybody</p> <p>13:58:12 10 in the department ever brought up the word</p> <p>13:58:14 11 "consignment."</p> <p>13:58:15 12 What I'm saying is that it's</p> <p>13:58:19 13 the same -- I see the same pattern in several</p> <p>13:58:21 14 different areas. This -- this -- this</p> <p>13:58:24 15 complaining, this finger-pointing, this lack of</p> <p>13:58:26 16 professionalism, and this was supposed to be our</p> <p>13:58:29 17 bright star, our great group of people.</p> <p>13:58:33 18 And I have to -- in my role, I</p> <p>13:58:34 19 have to depend on their information. So I was</p> <p>13:58:38 20 upset just to hear this -- this bickering. I use</p> <p>13:58:43 21 that word, but it wasn't professional. It wasn't</p> <p>13:58:47 22 what it should have been.</p> <p>13:58:48 23 Q And respectfully, you didn't answer</p> <p>13:58:50 24 my question.</p>

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15:39:30 1 going to be marked?
 15:39:33 2 A I have no idea.
 15:39:34 3 Q And when did the marking begin?
 15:39:39 4 A I'm sorry. Same answer. I don't
 15:39:40 5 have any idea.
 15:39:41 6 Q Okay. And in this case, with regard
 15:39:42 7 to those retail accounts, the purpose of the
 15:39:49 8 marking was specifically to cut down on
 15:39:52 9 transshipment, I gather, correct?
 15:39:54 10 A It looks like for those particular
 15:39:57 11 accounts that's what the objective was, yes.
 15:40:11 12 Q Exhibit 245, please.
 15:40:21 13 You remember this press
 15:40:29 14 release?
 15:40:29 15 A Again, generally, but not
 15:40:33 16 specifically.
 15:40:34 17 Q You approved its issuance?
 15:40:37 18 A I would have.
 15:40:59 19 Q In this press release, in the fourth
 15:41:09 20 paragraph, with reference to the outlook for the
 15:41:12 21 fourth quarter, you were quoted as saying, and I'm
 15:41:15 22 just reading part of this: In addition, we
 15:41:17 23 anticipate our sales will be further impacted by
 15:41:19 24 the recent gray market distribution of our

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15:41:22 1 products to a membership warehouse club.
 15:41:24 2 Do you see that?
 15:41:25 3 A Yes, I do.
 15:41:26 4 Q It was an accurate statement as of
 15:41:28 5 October 22nd?
 15:41:29 6 A I believe it was.
 15:41:31 7 Q And the membership warehouse club, I
 15:41:33 8 presume, was -- was Costco?
 15:41:35 9 A I think that's a fair assumption.
 15:41:37 10 Q And what did you mean by "further"?
 15:41:43 11 A I'm reading this. I'm sorry.
 15:41:45 12 Q Please.
 15:41:51 13 A That as the -- again, as the -- with
 15:41:54 14 the tightening of the market, as I said, I think
 15:41:57 15 the -- I was reading the sentence below it: The
 15:42:01 16 continuing weakness in the golf equipment market.
 15:42:03 17 Just as I said before, any problem was going to
 15:42:07 18 become exacerbated because the market is getting
 15:42:17 19 worse.
 15:42:17 20 Q Okay. Weren't you saying that prior
 15:42:18 21 to the fourth quarter sales had been impacted by
 15:42:24 22 gray market distribution?
 15:42:26 23 MR. BESSETTE: Misstates
 15:42:27 24 testimony.

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15:42:27 1 Q (By Mr. Collins) Please.
 15:42:31 2 A No. It -- I mean, if I'm reading
 15:42:33 3 this, it says "our -- our fourth quarter sales,"
 15:42:39 4 and I think I'm -- I interpret this as I'm saying:
 15:42:41 5 Look, I'm talking about what's coming up in the
 15:42:44 6 fourth quarter. The marketplace looks lousy and
 15:42:47 7 all problems are exacerbated.
 15:42:50 8 I'm sorry I'm putting this
 15:42:53 9 into slang, but that's how -- that's how I
 15:42:59 10 interpret it.
 15:42:59 11 Q Now, Orlimar eventually was
 15:43:03 12 gray-marketed, correct?
 15:43:03 13 A I -- I believe that's true.
 15:43:11 14 Q Do you have any view on -- on the
 15:43:15 15 basis of your experience with the market,
 15:43:20 16 experience with gray marketing, why Orlimar was
 15:43:24 17 targeted for Costco?
 15:43:28 18 MR. BESSETTE: Can I --
 15:43:30 19 MR. COLLINS: I'll make that a
 15:43:31 20 better question.
 15:43:32 21 Q (By Mr. Collins) If you have any
 15:43:33 22 opinion on this, why do you think that Orlimar, as
 15:43:35 23 well as Adams Golf, suffered from gray marketing
 15:43:42 24 at Costco?

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15:43:43 1 A Hot product.
 15:43:46 2 Q Did the margins and other forms of
 15:43:51 3 consideration paid to Orlimar retailers have
 15:43:53 4 anything to do with the gray marketing?
 15:43:57 5 MR. BESSETTE: Wait. I don't
 15:43:57 6 understand that.
 15:43:59 7 Q (By Mr. Collins) Was the -- Orlimar
 15:44:01 8 paid a healthy margin to retailers compared to
 15:44:04 9 other golf manufacturers, correct?
 15:44:05 10 A That's --
 15:44:06 11 MR. BESSETTE: Objection.
 15:44:07 12 Again, I don't think a wholesaler pays margins.
 15:44:11 13 A Yeah. That's worth --
 15:44:13 14 MR. COLLINS: That's quite
 15:44:13 15 right. Thank you. But I think we all know what
 15:44:16 16 we're talking about.
 15:44:17 17 Q (By Mr. Collins) Orlimar retailers,
 15:44:19 18 in general, received, compared to the industry, a
 15:44:23 19 large margin on retail sales in 1998, true?
 15:44:27 20 A I believe that's true, yes.
 15:44:31 21 Q Okay. Did that have anything to do,
 15:44:33 22 in your opinion, with why Orlimar was hit with
 15:44:37 23 gray marketing in Costco?
 15:44:39 24 A I don't think so. I would think that

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15:44:41 1 the Costco decision would be based on the
 15:44:43 2 popularity of the product. That would be my
 15:44:56 3 opinion.
 15:45:04 4 Q Exhibit 17, please.
 15:45:14 5 Have you seen this document
 15:45:15 6 before?
 15:45:15 7 A Yes, I have.
 15:45:16 8 Q And that is your signature?
 15:45:19 9 A Yes, it is.
 15:45:20 10 Q And you had approved and sent out
 15:45:21 11 this letter on or about January 4th, '99 to
 15:45:25 12 retailers?
 15:45:25 13 A Yes, I did.
 15:45:31 14 Q In the middle of the page you say:
 15:45:34 15 We can't help but be a little dissatisfied. Why?
 15:45:39 16 And then: One, we failed to defend our market
 15:45:41 17 position strongly enough. We didn't respond to
 15:45:45 18 misleading advertising from both legitimate
 15:45:50 19 competitors and knockoffs.
 15:45:50 20 What did you mean by that,
 15:45:59 21 please?
 15:46:00 22 A The Orlimar ads were rigged to make
 15:46:05 23 their product look superior. I guess I didn't
 15:46:14 24 think we made enough of an issue out of that.

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15:46:18 1 Q By "legitimate competitors," were you
 15:46:22 2 referring to Orlimar?
 15:46:24 3 A Yes.
 15:46:24 4 Q And who were you referring to by
 15:46:28 5 "knockoffs"?
 15:46:28 6 A I think there were 40 of them at one
 15:46:30 7 time. Take your pick.
 15:46:31 8 Q They were engaged in misleading
 15:46:36 9 advertising, the knockoffs?
 15:46:36 10 A Well, we had a guy that ran an ad in
 15:46:39 11 "USA Today," called his club the TL240 and didn't
 15:46:46 12 even use his own picture. He actually used a
 15:46:48 13 picture of our club.
 15:46:50 14 Q Now, Point 2: We were slow to react
 15:46:53 15 when unauthorized resellers, such as Costco, hurt
 15:46:56 16 retail margins.
 15:46:58 17 Do you see that?
 15:46:59 18 A Yes, I do.
 15:47:00 19 Q So it was accurate that in 1998
 15:47:05 20 Costco hurt retail margins for authorized
 15:47:14 21 retailers at Adams?
 15:47:14 22 THE REPORTER: I'm sorry.
 15:47:14 23 Could you repeat that? Costco hurt retailers --
 15:47:14 24 Q (By Mr. Collins) Hurt retail margins

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15:47:20 1 for authorized retailers at Adams.
 15:47:20 2 A The statement -- unfortunately, I do
 15:47:23 3 remember this one because this was a bit of an
 15:47:26 4 early argument between Chip and myself. He didn't
 15:47:28 5 think that statement even belonged in there. He
 15:47:30 6 thought we had reacted very, very quickly.
 15:47:32 7 So I was just taking the
 15:47:36 8 position kind of like before: Look, if -- if any
 15:47:41 9 retailer thinks we reacted slowly, let's admit it
 15:47:45 10 and go on forward.
 15:47:46 11 Q Okay. But now I wasn't asking in
 15:47:48 12 that question --
 15:47:49 13 A I'm sorry.
 15:47:49 14 Q -- about the speed of reaction.
 15:47:50 15 A Oh, I'm sorry.
 15:47:52 16 Q I was just asking you to agree with
 15:47:54 17 what you wrote here, which is that Costco in 1998
 15:47:57 18 hurt retail margins for Adams authorized
 15:47:57 19 retailers.
 15:48:02 20 You aren't denying that now,
 15:48:04 21 are you?
 15:48:04 22 A We were slow to react when
 15:48:06 23 unauthorized resellers, such as Costco, hurt
 15:48:08 24 retail margins.

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15:48:09 1 As I said before, it could
 15:48:11 2 be -- it could easily be true. It could easily be
 15:48:13 3 true in, say, one marketplace, maybe two
 15:48:16 4 marketplaces. I remember the argument that -- not
 15:48:18 5 the -- the discussion that I had with Chip was
 15:48:20 6 that there was no evidence that this happened
 15:48:22 7 across the board or was even significant. All I
 15:48:27 8 was trying to do, as I said before, was, you know,
 15:48:32 9 listen, if you think it's our problem, we'll admit
 15:48:35 10 it and let's go forward.
 15:48:36 11 Q You said in your last answer "one
 15:48:39 12 marketplace, maybe two marketplaces," but this
 15:48:41 13 letter, I gather, was sent to all Adams Golf
 15:48:45 14 retailers in the U.S.?
 15:48:47 15 A I believe it was, yes.
 15:48:48 16 Q Why didn't you send it just to the
 15:48:50 17 one or two marketplaces where you claim -- where
 15:48:52 18 the only locations where retail margins were hurt
 15:48:55 19 by Costco?
 15:48:56 20 A Oh, I don't know. I don't -- I don't
 15:48:57 21 see any sense in doing it that way to tell you the
 15:49:00 22 truth. You're making a -- you're making a
 15:49:03 23 statement that says: Hey, we're on your side.
 15:49:07 24 We're trying to help you. If you're going to make